



## California Postsecondary Education Commission

# May Revision to the 2006-07 State Budget: Summary

## Background

Each May, the Governor introduces a "May Revision" to the State budget proposal for the coming fiscal year. The adjustments include more up-to-date State revenue and expenditure estimates and more accurate caseload and workload projections for state programs. The May Revision also makes adjustments to current year spending and can include new initiatives and adjustments to proposals that were presented in the original January budget proposal.

## Revenues and Expenditures

The Governor's revised budget-year (2006-07) proposal includes nearly \$122 billion in total general purpose fund spending, an increase of \$6 billion over the \$116 billion in the January budget. The May Revision projects a \$4.8 billion increase in revenues for the current year (2005-06), along with \$2.7 billion in additional revenues for the upcoming budget year above the level initially projected last December. The unexpectedly strong performance of the California economy, coupled with relatively low State unemployment and increases in tax collections that are seen as being short-term in nature, are all credited for this high level of State revenue growth.

## Higher Education

With the May Revision, the Governor's budget now proposes \$14.8 billion in general purpose fund (combined State General, Lottery, and local funds) spending for California higher education. This is \$582 million (4.1%) above the \$14.2 billion in the January proposal. Display 1 shows revised State-fund spending by higher education entity.

Below are a few May Revision highlights for each higher education segment, for both the current and budget years:

### *California Community Colleges*

#### Current Year:

- \$100 million for deferred maintenance, instructional equipment, and hazardous substance abatement;
- \$100 million (including Proposition 98 reversion funds) for a general purpose block grant for local college priorities;
- \$40 million for Career Technical Education Initiative equipment and related work to be done by faculty;
- \$23.6 million for one-time costs associated with implementing a new funding formula for community colleges;

#### Budget Year:

- \$32.6 million for apportionments and \$2.3 million for selected categorical programs to reflect an increase in the calculated cost-of-living-adjustment (COLA) factor from 5.18 % to 5.92 %;
- A base reduction of \$85 million in apportionments to reflect unused 2005-06 enrollment growth funding;
- \$24 million to increase community colleges' matriculation program funding;

DISPLAY 1 Revised 2006-07 Proposed Higher Education State Funding  
(dollars in Thousands)

<u>Segment</u>	<u>Jan 2006 Proposal</u>	<u>May 2006 Revision</u>	<u>Dollar Change</u>	<u>Percent Change</u>
University of California <sup>1</sup>	\$3,713,438	\$3,879,502	\$166,064	4.9%
Hastings College	10,148	10,148	0	0.0%
California State University	3,109,176	3,371,487	262,311	6.0%
California Comm. Colleges	6,476,679	6,567,218	90,539	4.1%
Student Aid Commission	861,615	847,438	-14,177	-1.7%
Postsec. Education Comm.	\$2,065	\$2,065	0	0.0%
<u>Other Higher Education</u> <sup>2</sup>	<u>556,770</u>	<u>531,670</u>	<u>-25,100</u>	<u>-6.2%</u>
Totals, Expenditures	\$14,729,891	\$15,209,528	\$479,637	3.3%

1. "UC" includes the Institute for Regenerative Medicine

2. "Other" includes General Obligation Bonds and Retirement Costs

3. "State" funding includes General, local, lottery and Selected Bond funds; these totals exclude student fee revenues.

Source: California Department of Finance

- Various other initiatives and technical budgeting adjustments for the community colleges.

#### *California State University*

- For the budget year, \$1 million in one-time funds for faculty recruitment and start-up costs associated with the expansion of undergraduate and graduate nursing programs.

#### *University of California*

- For the current year, a reduction of \$3.8 million to reflect a shortfall in enrollments of 500 FTES;
- For the budget year, \$1 million in one-time funds for faculty recruitment and start-up costs associated with the expansion of undergraduate and graduate nursing programs;
- An increase of \$300,000 in Proposition 99 funds to provide additional funding for tobacco-related research.

#### *California Student Aid Commission*

- Reductions of \$14 million in the current year and \$14.8 million in the budget year, based upon revised estimates for Cal Grant Entitlement awards;
- For the budget year, a one-time increase of \$600,000 for a three-year period to implement a pilot Nurse Education Grant Program for State Agencies.

## K-12 and Other Programs

The May Revision proposes to increase current year K-12 Education funding by \$2 billion and to increase budget-year K-12 spending by another \$896.2 million. While \$200 million of this increase is provided as discretionary funding to school districts – and another \$320 million is provided for adjustments in statutory COLAs – much of the new funding is for proposed new initiatives. These include: a block grant program for arts and music instruction, an increase in the number of K-12 school counselors, and purchases of instructional materials and physical education class equipment. The May Revision also includes \$22 million for reforms to the teacher credentialing system that are contained in legislation by Senator Scott (SB 1209).

The May Revision proposes to pre-pay an additional \$1.6 billion in outstanding debt, raising the total proposed debt repayments for 2006-07 to \$3.2 billion. The Governor also proposes to increase the projected State General Fund reserve by \$1.6 billion, to a total of \$2.2 billion. Display 2 presents May Revision funding changes for each State program category.

In summary, the 2006-07 May Revision includes proposals for selective enhancements to ongoing programs, while paying down outstanding State debt, setting some monies aside in “rainy day” funds, and making generally one-time commitments of the additional funds. Given the uncertainty surrounding these funds – and the State’s ongoing structural funding challenges – treating these additional revenues as being limited in duration appears prudent.

Dept. of Finance web link to 2006-07 May Revision: <http://www.ebudget.ca.gov/Revised/BudgetSummary/BSS/BSS.html>

Legislative Analyst web link to 2006-07 May Revision: [http://www.lao.ca.gov/2006/may\\_revise/may\\_revise\\_051506.pdf](http://www.lao.ca.gov/2006/may_revise/may_revise_051506.pdf)

DISPLAY 2 May Revision to the Proposed 2006-07 State Budget (dollars in Thousands)				
Program Area	Jan 2006 Proposal	May 2006 Revision	Dollar Change	Percent Change
K-12 Education	\$40,023,253	\$40,697,944	\$674,691	1.7%
Higher Education	14,205,862	14,788,031	582,169	4.1%
Health, Human Services	35,324,634	36,023,070	698,436	2.0%
Corrections	8,083,628	8,684,248	600,620	7.4%
Bus, Trans, Housing	9,418,059	10,235,794	817,735	8.7%
Resources, Cal-EPA	4,642,735	5,261,192	618,457	16.7%
State, Consumer Services	1,314,297	1,337,163	22,866	1.7%
Labor, Workforce Devel.	391,425	404,562	13,137	3.4%
General Government	6,685,334	8,071,772	1,386,438	20.7%
Leg., Judicial, and Exec.	5,514,104	5,601,249	87,145	1.6%
TOTALS	\$125,603,331	\$131,105,025	5,501,694	4.4%
Totals include General Fund, special funds, and selected bond funds; federal funds and reimbursements are excluded.				
Source: California Department of Finance				